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Liggett Group to Produce 'Safer' Cigarettes in Durham, N.C.  
Anne Fawcett

Cigarette production will roll again in downtown Durham -- at least for a little while.

In preparation for the nationwide launch of a novel cigarette, Liggett Group's sister company will churn out millions of the new smokes starting later this month at a former Liggett manufacturing site.

The new cigarettes, which are being touted as a safer alternative to the conventional product, will be sold under the name Omni. They'll be made by Vector Tobacco, a subsidiary of Vector Group Ltd., which also owns Liggett.

While new product means a short-term return to Durham's cigarette producing days, Vector is counting on a long-term boost to its bottom line from the \$200 million-plus in new sales.

"There's a wide appeal because the vast majority of smokers are concerned about their health," said Tim Jackson, chief operating officer at Vector Tobacco. "We're dealing with two revolutionary types of products."

Vector Tobacco plans to produce the Omni cigarettes at a new facility in Roxboro. But until that site is ready next year, the company will use the former Liggett New Cigarette Factory building on West Main Street, Jackson said.

The company will begin making 15 to 20 million cigarettes per day in mid to late September to prepare for a nationwide rollout in October. The machines will run for 20 to 25 days to build up a supply of at least 300 million Omni cigarettes for the introduction.

Vector will continue to produce cigarettes on two machines in the Durham location until December, when Jackson expects the Roxboro facility to be on line with seven to 10 machines.

At least 50 employees will take part in the Durham launch. Some of the staff members hired for the Roxboro plant will commute to Durham this fall, and Vector has recruited employees retired from Liggett to help launch the Durham production. This second group will remain with the company through the end of December.

Liggett once boasted more than 3,000 Durham employees and more than 30 percent of the U.S. tobacco market. It was money from Washington Duke's American Tobacco Co., which bought Liggett & Myers in 1899, that brought Trinity College -- which later became Duke University -- to Durham in 1887. Financier Bennett LeBow bought the Durham company for \$136 million in 1986.

By 1998, Liggett commanded only 1.3 percent of the U.S. market. Citing a surplus of manufacturing space for its reduced operations, the company moved its operations to Mebane last year.

While a Liggett building will once again be producing cigarettes, the long-term plan for Liggett's downtown facilities are slated for a makeover that will transform the former work hub into shops, offices and apartments.

Innovations on the Walker building are scheduled to start this month, but construction on a proposed parking deck at the New Cigarette Factory site isn't planned until December 2002.

"[Vector's cigarette production] shouldn't impact that," Jackson said.

"We'll be out by the end of the year and Liggett won't have the opportunity to do any development before that time."

The Omni and Omni Nicotine Free cigarettes could add at least 2 percent to Vector Group's current 1.5 percent market share, predicts analyst Joel Luton with APS Financial Corporation in Austin, Texas.

The company posted \$740 million in revenues in 2000, according to Media General.

"If you're a smoker and you have a choice between two cigarettes, and one has high levels of carcinogens and one doesn't, and the one with fewer carcinogens tastes the same, I would think you would gravitate toward the healthier, safer cigarette," said Luton, who predicted the stock could rise into the upper \$60s.

Vector's stock closed at \$44.96 on Friday, a long way from the single digits the stock languished at during most of the '90s. Buzz about the Omni products is one of the factors behind the surge of Vector's stock price since the beginning of this year when it was in the \$20 range.

But it's still not certain that the smoking public will embrace Omni. Taste seems to be the key to producing a palatable product, especially for the reduced nicotine cigarette, said Jed Rose, a researcher at Duke University who is investigating the cigarette's use as a smoking cessation device.

Conventional reduced-nicotine products dilute smoke with air, which drives smokers to actually light up more for the same result, Rose said. But Omni Nicotine Free uses tobacco engineered to contain low levels of nicotine with the standard amount of smoke. Rose's studies have shown that smokers can make the switch from standard cigarettes to Omni Nicotine Free.

"Their nicotine intake is dramatically reduced and they seem to be much less dependent on nicotine from cigarettes," Rose said. "We hope this can be a bridge toward total smoking abstinence."

Rose said the Omni cigarette with fewer carcinogens could be important if it causes a substantial reduction in cancer or heart disease risk. Together, Omni and Omni Nicotine Free eliminate carcinogens in three ways, according to the company. The Omni cigarette contains palladium, which reacts with tobacco as the cigarette burns and keeps some carcinogens from entering the smoke. Both types use tobacco cured through a process that reduces other carcinogens. And the absence of nicotine in Omni Nicotine Free reduces the levels of the same carcinogen even further, according to the company. Vector Tobacco hopes to combine the technologies in a later version of Omni Nicotine Free, Jackson said.

"They've essentially developed a safer cigarette," Luton said. "It's not risk free, not totally safe, but it's safer than what's out there now."

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COMPANY (TICKER): Vector Group Ltd. (VGR)

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